

Message Text

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SUBJECT: NEW GOI BUDGETARY AND RELATED MEASURES

REF: ROME 1531 OF FEBRUARY 3

1. /SUMMARY/. FINANCIAL PRESS ON FEBRUARY 20 REPORTED THAT COUNCIL OF MINISTERS (COM) DECIDED TO REQUEST SUPPLEMENTARY BUDGET APPROPRIATIONS AND PROPOSED SERIES OF RELATED MEASURES SOME OF WHICH NOW BEING DEBATED IN PARLIAMENT. CLARIFICATION OBTAINED SUBSEQUENTLY FROM BANK OF ITALY SOURCE INDICATES THAT BUDGETARY SAVINGS AMOUNTING TO 965 BILLION LIRE FROM REVISED REVENUE AND EXPENDITURE FORECASTS FOR 1975 WOULD BE USED TO FIANCE NEW SUPPLEMENTARY BUDGET REQUEST. INFORMATION BELOW PROVIDED BY BANK OF ITALY (BOI) SOURCE. /END SUMMARY/.

2. /CURRENT EXPENDITURES/. SUPPLEMENTARY BUDGET APPROPRIATIONS REQUESTED BY COM FORESEE TOTAL EXPENDITURES OF 797.5 BILLION LIRE, OF WHICH CURRENT EXPENDITURES AMOUNT TO 362.5 BILLION LIRE, MAINLY FOR FOLLOWING: (A) 130 BILLION LIRE FOR INCREASE
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IN STATE PENSIONS AND CIVILIAN DISABILITY BENEFITS; (B) 110

BILLION LIRE TO REGIONS FOR HEALTH INSURANCE PROGRAM; (C) 98.5 BILLION LIRE FOR INCREASED BENEFITS AND INDEMNITIES TO POLICE; AND (D) 17 BILLION LIRE FOR EDUCATION.

3. /CAPITAL EXPENDITURES./ SUPPLEMENTARY BUDGET APPROPRIATIONS REQUESTED BY COM ALSO FORESEE CAPITAL EXPENDITURES OF 435 BILLION LIRE, MAINLY FOR FOLLOWING: (A) 90 BILLION LIRE FOR SCHOOL AND UNIVERSITY CONSTRUCTION; (B) 75 BILLION LIRE TO MEDIO CREDITO FOR INTEREST RATE SUBSIDIES ON EXPORT CREDITS; (C) 125 BILLION LIRE FOR EASING OF CREDIT AVAILABLE TO AGRICULTURAL SECTOR AT FAVORABLE INTEREST RATES; (D) 50 BILLION LIRE FOR PUBLIC RESIDENTIAL HOUSING CONSTRUCTION; (E) 40 BILLION LIRE FOR INDUSTRIAL RECONVERSION; (F) 20 BILLION LIRE FOR RESTRUCTURING OF TEXTILE INDUSTRY; AND (G) 25 BILLION LIRE FOR ASSISTANCE TO ARTISAN WORKERS.

4. IN ADDITION TO ESTIMATED CURRENT AND CAPITAL EXPENDITURES CITED PARAS 2 AND 3 ABOVE, COM ALSO APPROVED FOLLOWING MEASURES WHICH, ACCORDING TO BOI SOURCE, COULD RESULT IN ADDITIONAL TOTAL BUDGETARY EXPENDITURES OF PERHAPS 500-600 BILLION LIRE, OF WHICH 300 BILLION LIRE FOR THE FOLLOWING: (A) 20 PERCENT INCREASE IN FAMILY ALLOWANCES; (B) IMPLEMENTATION OF GUARANTEED SALARY (12 MONTH UNEMPLOYMENT INSURANCE) RECENTLY AGREED TO BETWEEN CONFINDUSTRIA AND LABOR UNIONS; AND (C) UNEMPLOYMENT BENEFITS FOR ITALIAN EMIGRANT WORKERS RETURNING FROM ABROAD (ESTIMATED AT 50,000 WORKERS IN 1975). THESE MEASURES WILL EVENTUALLY REQUIRE ADDITIONAL BUDGETARY EXPENDITURES IN FORM OF TREASURY TRANSFERS SINCE COM HAS NOT RECOMMENDED CONCOMITANT INCREASE IN INDIVIDUAL CONTRIBUTIONS TO SOCIAL SECURITY SYSTEM WHICH OPERATES THESE PROGRAMS. COM ALSO APPROVED INCREASE FROM 25 PERCENT TO 50 PERCENT IN CEILING OF LOCAL GOVERNMENT BUDGETS WHICH CAN BE FINANCED BY THE CASSA DEPOSITI E PRESTITI. ADDITIONAL FINANCING WHICH WOULD BE AVAILABLE TO LOCAL GOVERNMENTS FROM THIS SOURCE AND WHICH COULD EVENTUALLY ADD TO OVERALL TREASURY DEFICIT IS ESTIMATED AT 200-300 BILLION LIRE.

5. /RECEIPTS/. GOI ANTICIPATES BUDGETARY SAVINGS OF 965 BILLION LIRE. RECALCULATION OF TAX REVENUES WOULD RESULT IN ADDITIONAL 1975 TAX RECEIPTS AS FOLLOWS: (A) 630 BILLION LIRE UNCLASSIFIED

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FROM WITHHOLDING TAX ON INTEREST ON BANK ACCOUNTS; (B) 100 BILLION LIRE FROM INCREASED TAX REVENUE FROM SALES OF TOBACCO AND OF CIGARETTE LIGHTERS (PART OF STATE TOBACCO MONOPOLY); AND (C) 35 BILLION LIRE FROM INCREASED TELEPHONE RATES (FIGURE CONSISTS OF PART OF 300 BILLION LIRE FROM RATE INCREASES WHICH IS NOT USED BY THE TELEPHONE COMPANY FOR NEW INVESTMENTS). IN ADDITION, THERE WOULD BE SAVINGS OF 200 BILLION LIRE IN FORM OF REDUCTION IN TREASURY TRANSFERS AS RESULT OF INCREASE

IN POSTAL RATES.

6. ON BASIS OF FOREGOING, BANK OF ITALY SOURCE BELIEVES THAT ESTIMATED 1975 BUDGETARY SAVINGS OF 965 BILLION LIRE WILL BE USED TO FINANCE NEW SUPPLEMENTARY BUDGET APPROPRIATIONS OF ABOUT 798 BILLION LIRE.

7. BOI SOURCE ALSO ATTEMPTED TO CALCULATE NET EFFECT ON CASH BUDGET OF MEASURES DESCRIBED IN PARAS 2, 3 AND 5 ABOVE. HE THOUGHT THAT ADDITIONAL CASH EXPENDITURES IN 1975 MIGHT AMOUNT TO ABOUT 658 BILLION LIRE, WHILE CASH SAVINGS MIGHT BE ABOUT 930 BILLION LIRE. IT IS NOT CLEAR AS YET WHETHER APPARENT NET CASH RECEIPTS WILL LATER BE USED FOR OTHER NEW BUDGET APPROPRIATIONS (E.G., FOR ITEMS IN PARA 4). AT LEAST FOR PRESENT, IT DOES NOT APPEAR THAT ABOVE CHANGES IN 1975 WOULD RESULT IN ANY ADDITION TO ESTIMATED CASH BUDGET DEFICIT. (LIMIT ON THIS DEFICIT UNDER TERMS OF EC MEDIUM-TERM CREDIT IS 8,000 BILLION LIRE FOR 1975.)

8. COUNCIL OF MINISTERS ALSO APPROVED FOR SUBMISSION TO PARLIAMENT PROPOSAL BY INTERMINISTERIAL CREDIT COMMITTEE FOR INCREASE IN EXPORT CREDIT INSURANCE CEILING FROM 700 BILLION LIRE TO 1,400 BILLION LIRE.

9. IN COMMENTS TO PRESS REGARDING NEW GOI MEASURES, TREASURY MINISTER COLOMBO RECALLED PAST MONETARY AND FISCAL MEASURES WHICH GOI HAD ADOPTED IN ORDER TO REDUCE BALANCE OF PAYMENTS DEFICIT AND TO FIGHT INFLATION. HE STATED THAT CONSEQUENTIAL IMPROVEMENT IN ITALY'S BALANCE OF PAYMENTS DEFICIT AND, TO LESSER EXTENT, REDUCTION IN RATE OF PRICE INFLATION HAD NOW MADE IT POSSIBLE FOR GOI TO CONSIDER SELECTIVE EASING OF TIGHT CREDIT AND TO TAKE OTHER ANTI-RECESSION MEASURES. COLOMBO SAID URGENT PROBLEMS NOW CAUSING GOI CONCERN ARE UNCLASSIFIED

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MAINTENANCE OF INDUSTRIAL PRODUCTION AND EMPLOYMENT. NONETHELESS, GOI REMAINS COMMITTED TO MAINTAINING LIMITS TO GLOBAL DOMESTIC CREDIT EXPANSION, SPECIFICALLY IMF CEILING OF 22,400 BILLION LIRE IN PERIOD MARCH 1974 TO MARCH 1975, AND EC CEILING OF 24,700 BILLION LIRE IN PERIOD MARCH 1975 TO MARCH 1976. COLOMBO WARNED AGAINST SUCCUMBING TO TEMPTATION TO EASE UP TOO FAST ON ANTI-INFLATION PROGRAM IN FACE OF BALANCE OF PAYMENTS AND PRICE IMPROVEMENTS. VOLPE

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